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UNCLAS SECTION 01 OF 02 KABUL 000664

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TAGS: [EAID](#) [ENRG](#) [SENV](#) [AF](#)  
SUBJECT: Energy Minister Khan Undermines Utility Progress

REFS: A. 09 KABUL 2852  
[1](#)B. 09 KABUL 3186

[1](#)1. (SBU) Summary: Dr. Jalil Shams, CEO of the Afghan national utility DABS, has called for President Karzai's help in maintaining the utility's independence in the face of increasing interference from Acting Minister of Energy and Water Ismail Khan. Dr. Shams tells us that President Karzai was receptive and agreed to issue a decree clearly stating that DABS is an independent agency. Without independence, DABS faces a loss of donor support (including USD 570 million from the Asian Development Bank) and will not be able to combat the corruption and inefficiency that currently plague the sector. End summary.

Progress on DABS Independence  
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[1](#)2. (SBU) Following the February 18 Inter-ministerial Commission for Energy (ICE) meeting, Dr. Shams thanked the Embassy for our continuing support on the issue of DABS' autonomy and for coordinating donor support on this important subject (Refs A and B). Dr. Shams said Acting Minister Khan treats DABS like another Ministry of Energy and Water (MEW) department, intruding in daily affairs and threatening its chief officers, including Dr. Shams.

[1](#)3. (SBU) Dr. Shams said that in his meeting with President Karzai, he informed the President of DABS' lack of independence and asked that he intervene. Reportedly President Karzai said he would issue a decree clearly stating that DABS is an independent agency and that MEW should not interfere in its operations. According to Dr. Shams this decree should be drafted on February 22. Dr. Shams added that if he does not have clear support from the President, then he will step down as CEO of DABS. He understands that the President wants Khan as Minister of Energy and Water, but DABS' autonomy must be maintained.

Situation Still Critical  
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[1](#)4. (SBU) Progress on the North East Power System (NEPS) has allowed for an increase in the import of electricity from Uzbekistan, which grew from 70 megawatts (MW) during 2009 to 120 MW during 2010. About 30 MW of this power stays in the North (in Mazar-e-Sharif) while the balance comes to Kabul. Expanding NEPS has dramatically increased the availability of electricity in the capital and demonstrated GIROA's ability to improve public services. Further improvement will be possible when USAID completes the reactive power compensation facilities in December 2010. At that time, depending on further power purchase agreements, Kabul should be able to receive over 125 MW of Central Asian electricity, a significant increase in low-cost power supply.

[1](#)5. (SBU) In addition to increased electricity for Kabul, in December 2010 a new transmission line from NEPS to Nangarhar funded by the ADB will be available. This line will make it possible to double electricity supply to Jalalabad, and with additional investment in transformers and transmission, it will be possible to supply

low-cost NEPS power to the Jalalabad Highway economic corridor. USAID is rehabilitating Jalalabad's present power source (the Darunta Hydro-Power Plant), planning for additional NEPS priority projects in the region, and designing a new activity to improve the efficiency of the Nangarhar utility.

¶6. (SBU) To achieve these dramatically positive developments, GIROA must continue to reform the national utility DABS (Da Afghanistan Breshna Sherkat). The power struggle between reform-oriented and anti-reform Afghan officials continues, and Acting Minister of Water and Energy Ismail Khan is slowing and in some cases opposing efforts to reduce corruption and improve financial sustainability of the Afghan electricity sector.

¶7. (SBU) As they did in September 2009 (Ref B), donors have come together to present a united and urgent front, insisting on DABS' independence and good governance. If recent progress is reversed, the Afghan electrical system will not have the funds needed to maintain facilities put in place by donors, to fuel diesel generators, or to pay for large volumes of Central Asian electricity.

MEW: Reform Delays and Obstruction

¶8. (SBU) Acting Minister Khan has a long history of blocking the corporatization of DABS; his reluctance to sign the required documentation almost brought about the collapse of the independent utility in September 2009. At that time, only a unified donor approach and the threat of loss of donor support forced Khan to concede to the formal creation of DABS. Throughout the DABS corporatization process, there was widely reported opposition from

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Khan: Khan's MEW staff successfully resisted efforts to produce complete financial statements, to implement improved metering, billing and collection practices, and to introduce new management practices.

¶9. (SBU) Following the signing of the DABS transfer on September 30, 2009, donors hoped that GIROA would allow DABS to begin operation as an autonomous, commercialized national electricity utility. In support, USAID quickly launched a new USD 48 million activity to improve utility technical and commercial efficiency within Kabul, its largest distribution network. Unbeknownst to the donors, however, during the September 30 meeting, Acting Minister Khan executed a "side agreement" that effectively (illegally) transferred some control of DABS to MEW. This side agreement also redirected ADB- and World Bank-funded capital projects from DABS to MEW, in violation of signed agreements between GIROA and both of these donor agencies.

Comment

¶10. (SBU) President Karzai's willingness to defend DABS' independence is a positive sign, but recent history has shown us that donors must be watchful for MEW incursions in the utility's independence. Experienced observers suspect that millions of dollars are taken from the electricity sector annually by high-level officials; coupled with technical and commercial losses, this leaves the utility DABS in the red with little hope of becoming self-sufficient in the near future. The Embassy has met with Acting Minister Khan to explain our support for the Ministry of Energy and Water and to urge respect for the utility's separate role.

¶11. (SBU) We've also briefed other reform-minded partners about our concerns over DABS, including Minister of Finance Zakhilwal, Minister of Mines Shahrani, and Minister of Economy Arghandawal, who currently chairs the Inter-Ministerial Commission on Energy. Major donors, including the World Bank, the Asian Development Bank, the German Development Bank (KfW), and the USG are working together to provide increased access to electricity for millions of Afghans, and we will continue to work diligently to promote reform in the face of delays and obstruction. For success, we'll need renewed commitment and vibrant leadership to emerge from within the highest levels of

the GIROA.

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